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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 001177

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SUBJECT: Largest Private Bank Offers Foreign Policy Advice

Ref: Minsk 1146

11. (SBU) Summary: The chairman of the Austrian holding company that owns Priorbank, the largest and most internationally recognized private bank in Belarus, recently stated his company has been seeking a change in EU policy vis-Q-vis Belarus. Dr. Herbert Stepic, the Chairman of Raiffeisen International Bank-Holding AG, told Pol/Econ Chief the most effective way of promoting political and economic reform in Belarus is to work with President Lukashenko, "not to back him into a corner." Stepic said he will rely on his close contacts in the European Commission and the Austrian government to help steer the EU on a new course, particularly when the Austrians take over the EU presidency in January 2006. End Summary.

Priorbank Recognized For Outstanding Performance  
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12. (U) On September 13, The Banker, a prominent publication of the Financial Times group, gave the 2005 award for best bank in Belarus to Priorbank, the country's largest private bank. The bank has won the award three years in a row, and the chairman of the holding company that owns Priorbank, Austria's Raiffeisen International Bank-Holding, organized an event on September 14 to celebrate the bank's success in Belarus. Raiffeisen Chairman Dr. Stepic told a large crowd of high-ranking GOB officials, local business leaders, and diplomats that Priorbank had much to be proud of: profits reached nearly USD 22 million from January to August; the bank ranks third among Belarus' banks in terms of capital volume; it has more than 1,800 employees, 42 branches and outlets, and approximately 510,000 clients. Raiffeisen has enjoyed similar success with its banks in other Central and Eastern European countries.

Raiffeisen Chairman Sees Himself As Goodwill Ambassador  
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13. (U) Stepic stressed throughout his speech that the proper course for EU countries is to build stronger economic bridges in Belarus, much like his company has. He suggested that Belarus has yet to be discussed "positively" within the EU, and it was part of his company's mission to change this tendency. Stepic announced that when the Austrian government takes over the EU presidency in January 2006, he would call upon his good Austrian friend Benito Ferrero-Walder, the European Commissioner responsible for Belarus, and upon his close contacts in the Austrian

government to develop a more conciliatory political and economic relationship with the Lukashenko regime. Stepic briefly turned his attention to the GOB by noting the government could do more to create a more attractive business environment. The Raiffeisen chairman concluded his public remarks by disclosing that he envisioned himself as an ambassador between the EU and the GOB, encouraging both sides to move towards the middle.

14. (SBU) Following his remarks, Stepic told Pol/Econ Chief he thought it was counterproductive to back President Lukashenko into a corner, and he noted the EU's policy was doing just that. He maintained that his vast experience in the area has led him to the conclusion that strengthening economic ties and de-emphasizing the negative aspects of an oppressive regime is a more effective policy for encouraging political and economic change. He said he was committed to improving the image of Belarus in EU political and business circles.

How Does Priorbank Remain Private?

15. (SBU) Raiffeisen represents the largest shareholder of Priorbank, controlling 61 percent of the stock, and the European Bank for Reconstruction and Development (EBRD) is the second largest shareholder with 14 percent equity. When asked about Raiffeisen's strategy for preventing the GOB from expropriating Priorbank (via the Golden Share policy), Stepic told Pol/Econ Chief the government accepted Raiffeisen's unconditional term for taking ownership of the bank - no GOB pressure. Stepic stated Belarus' central bank chairman accepted the condition and there have been no

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problems to date. (Comment: Post knows that the GOB has pressured Priorbank to give a loan to at least one company, and there are rumors of other forced loans. However, Priorbank has taken all the necessary steps to ensure the loans are profitable investments.) Later in the conversation, he conceded Priorbank has had to follow the central bank's "suggestion" that the bank concentrates its activities in individual accounts and not in state-owned entities, but Stepic maintained this arrangement was mutually profitable for his company and the GOB.

Comment

16. (SBU) The future appears bright for Priorbank. Without question, it is an impressive banking institution, controlled by an impressive Western holding company. However, part of the bank's success has to do with Raiffeisen's willingness to play by President Lukashenko's rules. Raiffeisen Chairman Stepic's unambiguous and public support for stronger economic and political ties between Belarus and the EU has certainly earned him brownie points with the regime. Accordingly, Stepic seemed quite sure of his company's ability to keep the GOB from interfering too much in Priorbank's operations. Although he recognized the efforts of other private banks - such as those of Djem Bank (reftel) - to keep the regime at arm's length ultimately failed, Stepic suggested the fate of his bank would be different.

17. (C) There is probably more to the Raiffeisen-GOB relationship than Stepic was willing to admit. Rumors abound that Priorbank may act as the regime's bank to the outside world and may be involved in handling the personal accounts of Lukashenko and other regime friends. But so far there has never been found proof of such activities.

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